

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|   |                                 |   |                           |
|---|---------------------------------|---|---------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                                 | Local Government Name<br><b>Isabella County Transportation Commission</b> | County<br><b>Isabella</b> |
| Audit Date<br><b>9/30/05</b>  | Opinion Date<br><b>11/16/05</b> | Date Accountant Report Submitted to State:<br><b>1/27/06</b>              |                           |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

| We have enclosed the following:   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   |          |                 | ✓            |

|   |  |                             |                        |
|---|--|-----------------------------|------------------------|
| Certified Public Accountant (Firm Name)<br><b>Abraham &amp; Gaffney, P.C.</b>   |  |                             |                        |
| Street Address<br><b>3511 Coolidge Road, Suite 100</b>                          |  | City<br><b>East Lansing</b> | State<br><b>MI</b>     |
|   |  | ZIP<br><b>48823</b>         |                        |
| Accountant Signature<br><i>Abraham &amp; Gaffney, P.C.</i> <i>Adam M. Jones</i> |  |                             | Date<br><b>1/26/06</b> |

**Isabella County Transportation Commission  
Mt. Pleasant, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2005**

Isabella County Transportation Commission

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Isabella County Transportation Commission  
Mt. Pleasant, Michigan

We have audited the component unit financial statements of the Isabella County Transportation Commission as of and for the year ended September 30, 2005, as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Isabella County Transportation Commission as of September 30, 2005, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2005, on our consideration of the Isabella County Transportation Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as identified in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the component unit financial statements that collectively comprise the Isabella County Transportation Commission's basic financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Isabella County Transportation Commission. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 16, 2005

Isabella County Transportation Commission  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

The intent of the management's discussion and analysis is to provide highlights of the Commission's financial activities for the Fiscal Year ended September 30, 2005. Readers are encouraged to read this section in conjunction with the basic financial statements.

**Using this Audit Report**

This annual audit report consists of this management's discussion and analysis report, the independent audit's report, and the basic financial statements of the Commission, which include notes that explain in more detail some of the information in the financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of Isabella County Transportation Commission for the fiscal year October 1, 2004 to September 30, 2005.

**Isabella County Transportation Commission as a Whole**

Isabella County Transportation Commission's total net assets decreased approximately 13% from a year ago - decreasing from \$5,028,891 to \$4,407,123. This is due in part to the fiscal year 2004 figures reflecting the increased cash from the sale of land and property during that fiscal year. A significant part of the increased cash was used in 2005 to fund the new MERS pension and to make an extra payment on the long term debt of the ICTC facility. In a condensed format, the table below shows a comparison of the net assets as of 9/30/05 to the prior year 9/30/04.

**CONDENSED STATEMENT OF NET ASSETS**

|   | Fiscal Year<br>2005 | Fiscal Year<br>2004 |
|---|---------------------|---------------------|
| Current and Other Assets                          | \$ 1,052,747        | \$ 1,274,014        |
| Capital Assets, Net                               | <u>4,203,074</u>    | <u>4,848,837</u>    |
| Total Assets                                      | 5,255,821           | 6,122,851           |
| Current Liabilities                               | 354,399             | 390,473             |
| Noncurrent Liabilities                            | <u>494,299</u>      | <u>703,487</u>      |
| Total Liabilities                                 | <u>848,698</u>      | <u>1,093,960</u>    |
| Invested in Capital Assets<br>Net of Related Debt | 3,608,699           | 4,059,708           |
| Unrestricted                                      | <u>798,424</u>      | <u>969,183</u>      |
| Total Net Assets                                  | <u>\$ 4,407,123</u> | <u>\$ 5,028,891</u> |

**Isabella County Transportation Commission Activities**

Isabella County Transportation Commission's operating revenues increased approximately \$94,625, primarily due to an increase in ridership and contract activities. Nonoperating revenue decreased by approximately \$664,965 because the fiscal year 2004 figure reflects the sale of the old transit facility. Operating expenses increased by \$581,787, due in part to the start up costs to fund the MERS pension, and increased costs of fuel and health care. Depreciation expense increased approximately \$89,506 from 2004. As a result, the net decrease in net assets after depreciation was \$630,628. In a condensed format, the table shows a comparison of the revenues and expenses for 2005 and 2004.

Isabella County Transportation Commission  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2005

**Isabella County Transportation Commission Activities - Continued**

CONDENSED STATEMENT OF REVENUE, EXPENSES,  
AND CHANGES IN FUND NET ASSETS

|                          | Fiscal Year<br><u>2005</u> | Fiscal Year<br><u>2004</u> |
|--------------------------|----------------------------|----------------------------|
| Operating Revenues       | \$ 535,673                 | \$ 441,048                 |
| Nonoperating Revenues    | <u>2,706,903</u>           | <u>3,371,868</u>           |
| Total Revenues           | 3,242,576                  | 3,812,916                  |
| Depreciation Expense     | 645,763                    | 556,257                    |
| Other Operating Expenses | 3,197,939                  | 2,616,152                  |
| Nonoperating Expenses    | <u>29,502</u>              | <u>33,370</u>              |
| Total Expenses           | <u>3,873,204</u>           | <u>3,205,779</u>           |
| Change in Net Assets     | ( 630,628 )                | 607,137                    |
| Prior Period Adjustments | 8,860                      | -                          |
| Beginning Net Assets     | <u>5,028,891</u>           | <u>4,421,754</u>           |
| Ending Net Assets        | <u>\$ 4,407,123</u>        | <u>\$ 5,028,891</u>        |

**Capital Assets**

At the end of fiscal year 2005 Isabella County Transportation Commission had approximately \$6,906,418 in capital assets. This is a decrease of \$212,187 from fiscal year 2004 due to the Commission's disposal of old buses and various office and garage equipment. New buses which were ordered in 2005 were delayed during production, and not received in the fiscal year.

**Long-term Debt**

At September 30, 2005, Isabella County Transportation Commission had a long-term debt balance of \$594,375. This loan has an interest rate of 4% and is payable in annual installments with the final payment due on April 18, 2011. An extra payment was made on the building in 2005, using some of the funds received from the sale of ICTC's old facility.

**Economic Factors**

Isabella County Transportation Commission's budget for FY 2006 calls for a 10% increase in property tax revenues. We anticipate overall expenses to increase approximately 10%. Isabella County Transportation Commission will continue to monitor the budget to keep these expenses as low as possible.

**Contacting Isabella County Transportation Commission**

This audit report is intended to provide our citizens, taxpayers, and customers with the general overview of Isabella County Transportation Commission's finances and to show Isabella County Transportation Commission's accountability for the money that it receives. If you have any questions about this audit, please contact Isabella County Transportation Commission.

## **BASIC FINANCIAL STATEMENTS**



Isabella County Transportation Commission

STATEMENT OF NET ASSETS

September 30, 2005

ASSETS

Current assets

|  |               |
|--|---------------|
| Cash and cash equivalents                  | \$ 665,391    |
| Accounts receivable                        | 65,912        |
| Due from other governmental units          | 174,495       |
| Due from employees                         | 2,377         |
| Land contract receivable - current portion | 2,684         |
| Inventories                                | 76,248        |
| Prepays                                    | <u>52,214</u> |

Total current assets 1,039,321

Noncurrent assets

|   |                  |
|---|------------------|
| Land contract receivable                        | 13,426           |
| Capital assets not being depreciated            | 54,004           |
| Capital assets, net of accumulated depreciation | <u>4,149,070</u> |

Total noncurrent assets 4,216,500

TOTAL ASSETS 5,255,821

LIABILITIES

Current liabilities

|                                 |                |
|---------------------------------|----------------|
| Accounts payable                | 28,066         |
| Accrued payroll                 | 27,217         |
| Compensated absences            | 71,121         |
| Due to other governmental units | 94,405         |
| Accrued interest payable        | 4,111          |
| Other accrued liabilities       | 8,575          |
| Deferred revenue                | 20,828         |
| Current portion of loan payable | <u>100,076</u> |

Total current liabilities 354,399

Noncurrent liabilities

|              |                |
|--------------|----------------|
| Loan payable | <u>494,299</u> |
|--------------|----------------|

TOTAL LIABILITIES 848,698

NET ASSETS

|   |                |
|---|----------------|
| Invested in capital assets, net of related debt | 3,608,699      |
| Unrestricted                                    | <u>798,424</u> |

TOTAL NET ASSETS \$ 4,407,123

See accompanying notes to financial statements.

Isabella County Transportation Commission

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2005

|                                    |                            |
|------------------------------------|----------------------------|
| OPERATING REVENUES                 |                            |
| Sales and charges for services     | \$ 535,673                 |
| OPERATING EXPENSES                 |                            |
| Administrative                     | 526,491                    |
| Operations                         | 2,958,774                  |
| Maintenance                        | <u>358,437</u>             |
| TOTAL OPERATING EXPENSES           | <u>3,843,702</u>           |
| OPERATING LOSS                     | (3,308,029)                |
| NONOPERATING REVENUES              |                            |
| Intergovernmental                  |                            |
| Federal sources                    | 467,722                    |
| State sources                      | 1,276,652                  |
| Local sources                      | 940,479                    |
| Interest earnings                  | <u>22,050</u>              |
| TOTAL NONOPERATING REVENUES        | 2,706,903                  |
| NONOPERATING EXPENSES              |                            |
| Interest expense on long-term debt | <u>(29,502)</u>            |
| DECREASE IN NET ASSETS             | (630,628)                  |
| Net assets, beginning of year      | 5,028,891                  |
| Prior period adjustment            | <u>8,860</u>               |
| Net assets, end of year            | <u><u>\$ 4,407,123</u></u> |

See accompanying notes to financial statements.

Isabella County Transportation Commission

STATEMENT OF CASH FLOWS

Year Ended September 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

|                              |                    |
|------------------------------|--------------------|
| Cash received from customers | \$ 487,371         |
| Cash paid to employees       | (1,408,155)        |
| Cash paid to suppliers       | <u>(2,029,905)</u> |

NET CASH USED BY OPERATING ACTIVITIES (2,950,689)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

|                           |                |
|---------------------------|----------------|
| Intergovernmental sources |                |
| State and Federal grants  | 1,738,896      |
| Local contributions       | <u>940,479</u> |

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 2,679,375

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

|   |                 |
|---|-----------------|
| State and Federal capital assistance          | 5,478           |
| Payment received for land contract receivable | 2,534           |
| Principal payment on long-term debt           | (194,754)       |
| Interest payment on long-term debt            | <u>(29,502)</u> |

NET CASH USED BY CAPITAL AND  
RELATED FINANCING ACTIVITIES (216,244)

CASH FLOWS FROM INVESTING ACTIVITIES

|                   |               |
|-------------------|---------------|
| Interest received | <u>22,050</u> |
|-------------------|---------------|

NET DECREASE IN CASH AND CASH EQUIVALENTS DURING YEAR (465,508)

Cash and cash equivalents, beginning of year 1,130,899

Cash and cash equivalents, end of year \$ 665,391

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

|  |                |
|--|----------------|
| Operating loss   | \$ (3,308,029) |
| Adjustments to reconcile operating loss to net cash used by operating activities |                |
| Depreciation   | 645,763        |
| (Increase) in accounts receivable  | (48,302)       |
| (Increase) in due from employees   | (2,197)        |
| (Increase) in due from other governmental units                                  | (174,495)      |
| (Increase) in inventories  | (48)           |
| (Increase) in prepaids   | (21,733)       |
| (Decrease) in accounts payable   | (42,259)       |
| (Decrease) in accrued interest payable   | (10,158)       |
| (Decrease) in accrued wages  | (53,637)       |
| Increase in compensated absences   | 71,121         |
| (Decrease) in due to other governmental units                                    | (23,028)       |
| Increase in other accrued liabilities  | 8,575          |
| Increase in deferred revenue   | <u>7,738</u>   |

NET CASH USED BY OPERATING ACTIVITIES \$ (2,950,689)

See accompanying notes to financial statements.

# Isabella County Transportation Commission

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005

### **NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Isabella County Transportation Commission (The Commission) is considered a component unit of Isabella County, Michigan for financial accounting and reporting purposes.

The Commission receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The Commission provides demand response services within Isabella County. The Commission also provides special services on a contractual basis to several nonprofit and governmental agencies within the County.

The accounting policies of the Isabella County Transportation Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Commission has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

#### 1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Isabella County Transportation Commission. The Commission is considered a "component unit" of the County of Isabella, Michigan's governmental operation. As a result, industry standards require the County to include the financial activities of the Commission in the County's Annual Financial Report. The Annual Financial Report of Isabella County, Michigan is available for public inspection at the Isabella County Courthouse.

#### 2. Basis of Presentation

The accounts of the Commission are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Commission resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

#### PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Commission applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The Commission has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

#### 3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash and Cash Equivalents

The Commission cash and cash equivalents accounts consist of deposits with the County Treasurer and other checking accounts. The balances in the cash accounts are available to meet current operating requirements. The County Treasurer is responsible for investing cash in excess of current requirements in various interest bearing accounts.

6. Capital Assets and Long-Term Liabilities

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

|                         |            |
|-------------------------|------------|
| Buildings               | 40 years   |
| Vehicles                | 5-12 years |
| Furniture and equipment | 5 years    |

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

7. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

9. Cost Allocations

The Isabella County Transportation Commission allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE B: CASH AND CASH EQUIVALENTS**

In accordance with Michigan Compiled Laws, the Commission is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. As of September 30, 2005, the carrying amounts of the Commission's deposits were \$9,147 and the bank balance was \$79,648. As of September 30, 2005, the Commission's deposits were fully insured by the FDIC. The Statement of Net Assets caption "Cash and Cash Equivalents" includes \$1,365 of imprest cash and \$654,879 in cash that is on deposit with the Isabella County Treasurer. It is not practical to determine the insured portion of the cash on deposit with the Isabella County Treasurer.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2005, the Commission did not have any investments that would be subject to rating.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Interest rate risk

The Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Commission's cash requirements.

Concentration of credit risk

The Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Commission will do business in accordance with Board approved policy.

**NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units at September 30, 2005, by grant type and year are as follows:

|  |                   |
|--|-------------------|
| Federal Section 5311 Operating - FY 05 | \$ 54,718         |
| Federal Section 5311 Operating - FY 03 | 41,101            |
| State Operating Assistance - FY 05     | 132,722           |
| State Operating Assistance - FY 04     | ( 61,865 )        |
| State Grant - Transportation to Work   | <u>7,819</u>      |
| Total                                  | <u>\$ 174,495</u> |

**NOTE D: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2005, was as follows:

|                                      | Balance<br>Oct. 1, 2004 | Additions | Deletions | Balance<br>Sept. 30, 2005 |
|--------------------------------------|-------------------------|-----------|-----------|---------------------------|
| Capital assets not being depreciated |                         |           |           |                           |
| Land                                 | \$ 54,004               | \$ -      | \$ -      | \$ 54,004                 |
| Capital assets being depreciated     |                         |           |           |                           |
| Buildings and improvements           | 2,784,633               | -         | -         | 2,784,633                 |
| Buses                                | 3,364,800               | -         | 205,753   | 3,159,047                 |
| Bus equipment                        | 200,706                 | -         | -         | 200,706                   |
| Office and garage equipment          | 700,390                 | -         | 6,434     | 693,956                   |
| Office furniture                     | <u>14,072</u>           | <u>-</u>  | <u>-</u>  | <u>14,072</u>             |
| Subtotal                             | 7,064,601               | -0-       | 212,187   | 6,852,414                 |

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE D: CAPITAL ASSETS - CONTINUED**

|   | Balance<br>Oct. 1, 2004 | Additions     | Deletions | Balance<br>Sept. 30, 2005 |
|---|-------------------------|---------------|-----------|---------------------------|
| Less accumulated depreciation for:      |                         |               |           |                           |
| Buildings and improvements              | \$( 496,047 )           | \$( 139,232 ) | \$ -      | \$( 635,279 )             |
| Buses                                   | (1,372,352 )            | ( 349,180 )   | 205,753   | (1,515,779 )              |
| Bus equipment                           | ( 143,102 )             | ( 26,585 )    | -         | ( 169,687 )               |
| Office and garage equipment             | ( 253,694 )             | ( 129,359 )   | 6,434     | ( 376,619 )               |
| Office furniture                        | ( 4,573 )               | ( 1,407 )     | -         | ( 5,980 )                 |
| Total accumulated depreciation          | (2,269,768 )            | ( 645,763 )   | 212,187   | (2,703,344 )              |
| Net capital assets<br>being depreciated | 4,794,833               | ( 645,763 )   | -0-       | 4,149,070                 |
| Net Capital Assets                      | \$ 4,848,837            | \$( 645,763 ) | \$ -0-    | \$ 4,203,074              |

A summary of capital assets by funding source at September 30, 2005, follows:

|                                | Purchased<br>with<br>Commission<br>Funds | Purchased<br>with<br>Capital<br>Grants | Total        |
|--------------------------------|--|--|--------------|
| Land                           | \$ 54,004                                | \$ -                                   | \$ 54,004    |
| Buildings and improvements     | 1,584,633                                | 1,200,000                              | 2,784,633    |
| Buses                          | 200,103                                  | 2,958,944                              | 3,159,047    |
| Bus equipment                  | 9,313                                    | 191,393                                | 200,706      |
| Office and garage equipment    | 157,751                                  | 536,205                                | 693,956      |
| Office furniture               | -  | 14,072                                 | 14,072       |
| Total                          | 2,005,804                                | 4,900,614                              | 6,906,418    |
| Less: accumulated depreciation | ( 641,845 )                              | (2,061,499 )                           | (2,703,344 ) |
| Net Capital Assets             | \$ 1,363,959                             | \$ 2,839,115                           | \$ 4,203,074 |

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year, the Isabella County Transportation Commission disposed of capital assets in the amount of \$205,753 that were Federally or State funded. Depreciation expense in the amount of \$645,763 was reported for the year ended September 30, 2005.

**NOTE E: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Commission for the year ended September 30, 2005:

|                   | Balance<br>Oct. 1, 2004 | Additions | Deletions  | Balance<br>Sept. 30, 2005 | Amount<br>Due Within<br>One Year |
|-------------------|-------------------------|-----------|------------|---------------------------|----------------------------------|
| MDOT loan payable | \$ 789,129              | \$ -0-    | \$ 194,754 | \$ 594,375                | \$ 100,076                       |



Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE E: LONG-TERM DEBT - CONTINUED**

Significant details regarding the outstanding long-term debt (including the current portion) are presented below:

\$1,100,000 MDOT State Infrastructure Bank Loan dated April 18, 2000, due in annual installments of \$83,816 to \$117,207 through April 18, 2011, with interest of 4.00 percent, payable annually. \$ 594,375

The annual requirements to pay the debt principal and interest outstanding for the above loan payable are as follows:

| <u>Year Ending<br/>September 30,</u> | <u>Principal</u>  | <u>Interest</u>  |
|--------------------------------------|-------------------|------------------|
| 2006                                 | \$ 100,076        | \$ 17,131        |
| 2007                                 | 97,435            | 19,772           |
| 2008                                 | 101,289           | 15,918           |
| 2009                                 | 105,384           | 11,823           |
| 2010                                 | 109,599           | 7,608            |
| 2011                                 | <u>80,592</u>     | <u>3,224</u>     |
|                                      | <u>\$ 594,375</u> | <u>\$ 75,476</u> |

**NOTE F: COMPENSATED ABSENCES**

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Upon termination, an employee receives payment for the balance of any unused vacation leave, which was credited on the employee's anniversary date. All unused vacation leave in excess of the amounts allowed by respective union and contractual agreements is lost at the end of the employee's respective anniversary year. No unused sick leave is paid upon termination. Therefore, accumulated vacation at September 30, 2005, will be paid from current financial resources and is recorded as a current liability in the amount of \$71,121.

**NOTE G: PROPERTY TAX REVENUES**

The Isabella County Transportation Commission property tax is levied in December on the State Equalized Valuation of property located in the County of Isabella as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$1.225 billion representing 50% of estimated current market value. In August 2004, the Isabella County Transportation Commission's tax rate of 1.00 mills was renewed for three (3) years, expiring in December 2007. For the year ended September 30, 2005, the Isabella County Transportation Commission levied .80 mills.

**NOTE H: DEFERRED COMPENSATION PLAN**

Isabella County Transportation Commission offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE H: DEFERRED COMPENSATION PLAN - CONTINUED**

The Administrators are agents of Isabella County for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Commission's financial statements.

**NOTE I: RETIREMENT PLAN**

Plan Description

The Commission Board approved in January 2005 to participate in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., salary) employees of the Commission. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees contribute 2.5% of their annual salary to the retirement system. The Commission is required to contribute 7% of the annual salaries of covered employees to fund the system.

Annual Pension Cost

For year ended September 30, 2005, the Commission's annual pension cost of \$25,986 for the plan was equal to the Commission's required and actual contribution. The Commission also contributed \$235,000 to start the plan. The annual required contribution was determined as part of an actuarial valuation at February 1, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Trend information

|   | Year Ended<br>February 1, 2004   |
|---|----------------------------------|
| Actuarial value of assets                     | \$ -                             |
| Actuarial accrued liability (AAL) (entry age) | 913,236                          |
| Unfunded (overfunded) AAL                     | 913,236                          |
| Funded ratio                                  | 0 %                              |
| Covered payroll                               | 462,991                          |
| UAAL as a percentage of covered payroll       | 197 %                            |
|   | Year Ended<br>September 30, 2005 |
| Annual pension cost                           | \$ 25,986                        |
| Percentage of APC contributed                 | 100 %                            |
| Net pension obligation                        | -                                |

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE I: RETIREMENT PLAN - CONTINUED**

Trend information related to annual pension cost, percentage of annual pension cost contributed, and net pension obligation for the preceding two years has not been presented as required by GASB Statement No. 27, as this is only the first year of the plan. This trend information was obtained from the most recently issued actuarial reports.

**NOTE J: RISK MANAGEMENT**

The Commission carries commercial insurance for the risk of loss due to workers' compensation claims.

The Commission is a member of the Michigan Transit Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities. This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Commission. The Commission pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

The Commission also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Commission has no liability for additional assessments based on claims filed against the pool nor do they have any rights to dividends.

**NOTE K: CONTINGENT LIABILITIES**

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

During the 2004-05 fiscal year, the Commission withdrew from the Isabella County's health insurance pool. The terms of the agreement with Isabella County provide that the Commission must repay the County for amounts overdrawn in the pool. The County and the Commission are in dispute regarding the amount that the Commission owes to the County. However, it is the belief of the Commission that \$94,110 is owed to the County, and that amount has been recorded as a liability in the financial statements. At this time, it is not possible to predict the impact of this dispute, if any, on the Commission's financial statements.

**NOTE L: PRIOR PERIOD ADJUSTMENT**

The following prior period adjustment was made during the year, which was the result of the correction of an accounting error. This adjustment was reported as a change to beginning net assets. The effect on operations and other affected balances for the current and prior period are as follows:

|                        | September 30, |             |  |
|------------------------|---------------|-------------|--|
|                        | 2005          | 2004        |  |
| Accounts payable       | \$ -          | \$( 8,860 ) | To correct overstatement<br>of accounts payable in<br>the prior year |
| Change in net assets   | -             | 8,860       |  |
| Net assets - beginning | 8,860         | -           |  |

## OTHER SUPPLEMENTARY INFORMATION

Isabella County Transportation Commission

SCHEDULE OF OPERATING REVENUES

Year Ended September 30, 2005

|                                  |                          |
|----------------------------------|--------------------------|
| Transportation revenue           |                          |
| Passenger fares                  | \$ 238,972               |
| Contract rides                   | 193,486                  |
| Auxiliary transportation revenue |                          |
| Advertising                      | <u>8,700</u>             |
| Total transportation revenue     | 441,158                  |
| Nontransportation revenue        |                          |
| Maintenance services             | 24,968                   |
| Gain on sale of capital assets   | 22,629                   |
| CDL fees                         | 33,486                   |
| Insurance reimbursement          | 10,232                   |
| Other                            | <u>3,200</u>             |
| Total nontransportation revenue  | <u>94,515</u>            |
| TOTAL OPERATING REVENUES         | <u><u>\$ 535,673</u></u> |

Isabella County Transportation Commission

SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2005

|                                 | <u>Operations</u>          | <u>Maintenance</u>       | <u>General<br/>Administrative</u> | <u>Total<br/>System</u>    |
|---------------------------------|----------------------------|--------------------------|-----------------------------------|----------------------------|
| Labor                           |                            |                          |                                   |                            |
| Operator's salaries and wages   | \$ 870,372                 | \$ -                     | \$ -                              | \$ 870,372                 |
| Other salaries and wages        | 264,530                    | 129,452                  | 159,088                           | 553,070                    |
| Fringe benefits                 | 875,371                    | 121,422                  | 179,486                           | 1,176,279                  |
| Contractual services            |                            |                          |                                   |                            |
| Advertising fees                | -                          | -                        | 6,930                             | 6,930                      |
| Maintenance                     | 3,665                      | 10,041                   | 13,764                            | 27,470                     |
| Other services                  | 3,890                      | 385                      | 9,730                             | 14,005                     |
| Materials and supplies consumed |                            |                          |                                   |                            |
| Fuel and lubricants             | 188,331                    | 349                      | -                                 | 188,680                    |
| Tires and tubes                 | 12,841                     | 32                       | -                                 | 12,873                     |
| Parts                           | 59,649                     | 13,906                   | -                                 | 73,555                     |
| Other materials and supplies    | 20,074                     | 40,373                   | 9,201                             | 69,648                     |
| Utilities                       | -                          | -                        | 43,068                            | 43,068                     |
| Insurance                       | 137,718                    | -                        | -                                 | 137,718                    |
| Miscellaneous expenses          |                            |                          |                                   |                            |
| Equipment rental and lease      | 4,672                      | 134                      | 1,820                             | 6,626                      |
| Dues and subscriptions          | -                          | 1,127                    | 6,582                             | 7,709                      |
| Travel and meetings             | 570                        | 320                      | 3,020                             | 3,910                      |
| Other                           | 687                        | 109                      | 5,230                             | 6,026                      |
| Depreciation                    | <u>516,404</u>             | <u>40,787</u>            | <u>88,572</u>                     | <u>645,763</u>             |
| <b>TOTAL OPERATING EXPENSES</b> | <u><u>\$ 2,958,774</u></u> | <u><u>\$ 358,437</u></u> | <u><u>\$ 526,491</u></u>          | <u><u>\$ 3,843,702</u></u> |

Isabella County Transportation Commission

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Year Ended September 30, 2005

|   |                              |
|---|------------------------------|
| Property taxes                          | \$ 940,479                   |
| Interest                                | <u>22,050</u>                |
| <br>TOTAL NONOPERATING REVENUES - LOCAL | <br><u><u>\$ 962,529</u></u> |

Isabella County Transportation Commission

SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Year Ended September 30, 2005

|   |                            |
|---|----------------------------|
| State of Michigan Grants                        |                            |
| Formula operating assistance (Act 51)           | \$ 1,232,708               |
| Capital grant - Section 5309 (Garage equipment) | 1,096                      |
| Transportation to Work                          | <u>42,848</u>              |
| Total State of Michigan Grants                  | 1,276,652                  |
| Federal Grants                                  |                            |
| U.S.D.O.T. operating grant - Section 5311       | 393,080                    |
| Capital grant - Section 5309 (Garage equipment) | 4,382                      |
| RTAP  | 671                        |
| Prior year adjustments                          | <u>69,589</u>              |
| Total Federal Grants                            | <u>467,722</u>             |
| TOTAL NONOPERATING REVENUES - STATE AND FEDERAL | <u><u>\$ 1,744,374</u></u> |



Isabella County Transportation Commission

SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS

Year Ended September 30, 2005

|   | Federal<br>Section 5311 | State<br>Operating<br>Assistance |
|---|-------------------------|----------------------------------|
| Expenses  |                         |                                  |
| Labor   | \$ 1,423,442            | \$ 1,423,442                     |
| Fringe benefits   | 1,176,279               | 1,176,279                        |
| Contracted services   | 48,405                  | 48,405                           |
| Material and supplies   | 344,756                 | 344,756                          |
| Utilities   | 43,068                  | 43,068                           |
| Insurance   | 137,718                 | 137,718                          |
| Miscellaneous   | 24,271                  | 24,271                           |
| Depreciation  | 645,763                 | 645,763                          |
| Total expenses  | 3,843,702               | 3,843,702                        |
| Less: Ineligible expenses   |                         |                                  |
| Nontransportation revenues  | 60,455                  | 60,455                           |
| Expenses associated with<br>sale of maintenance service                                       | 24,968                  | 24,968                           |
| Grant costs   |                         |                                  |
| RTAP  | 671                     | 671                              |
| Maintenance   | 5,478                   | 5,478                            |
| Association dues  | 47                      | 47                               |
| Depreciation  | 520,458                 | 520,458                          |
| Total ineligible expenses   | 612,077                 | 612,077                          |
| NET ELIGIBLE EXPENSES   | \$ 3,231,625            | \$ 3,231,625                     |
| Maximum Section 5311 reimbursement<br>12.4% of \$3,231,625, not to exceed \$393,080           | \$ 393,080              |                                  |
| Maximum State operating assistance<br>38.437574823% of \$3,231,625, not to exceed \$1,232,708 |                         | \$ 1,232,708                     |

Isabella County Transportation Commission

SCHEDULE OF INELIGIBLE EXPENSES

Year Ended September 30, 2005

| <u>Program</u>   | <u>Finding/Noncompliance</u>   | <u>Ineligible<br/>Expense</u> |
|--|--|-------------------------------|
| Urban Mass Transportation<br>Administration  |  |                               |
| A) Operating Grants listed on<br>Schedule of Expenditures<br>of Federal and State Awards |  |                               |
|  | 1. Nontransportation revenues and miscellaneous<br>income and expense are deducted as ineligible<br>grant expenses.                            | \$ 60,455                     |
|  | 2. Sale of maintenance service - eligible expenses<br>are reduced by proceeds from services.   | 24,968                        |
|  | 3. Grant Costs - grant expenditures are included in<br>the total expenses; therefore, they are deducted to<br>arrive at net eligible expenses. | 6,149                         |
|  | 4. Association Dues - A percentage of the annual dues<br>paid to transit associations must be deducted as an<br>ineligible expense.            | 47                            |
|  | 5. Depreciation - depreciation on capital assets<br>purchased with Federal and State grants must be<br>deducted as an ineligible expense.      | <u>520,458</u>                |
|  | Total  | <u><u>\$ 612,077</u></u>      |

Isabella County Transportation Commission  
SCHEDULE OF MILEAGE DATA (UNAUDITED)  
Year Ended September 30, 2005

|                       | Public<br>Transportation<br>Mileage <sup>(1)</sup> |
|-----------------------|--|
| DEMAND RESPONSE       |  |
| First quarter         | 199,665  |
| Second quarter        | 203,812  |
| Third quarter         | 196,716  |
| Fourth quarter        | 183,217  |
| TOTAL DEMAND RESPONSE | 783,410  |

<sup>(1)</sup> The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Isabella County Transportation Commission

SCHEDULE OF VEHICLE HOURS AND PASSENGERS (UNAUDITED)<sup>(1)</sup>

Year Ended September 30, 2005

|                 | <u>Number of<br/>Vehicle<br/>Hours</u> | <u>Number of<br/>Youth<br/>Passengers</u> | <u>Number of<br/>Regular<br/>Passengers</u> | <u>Number of<br/>Senior<br/>Passengers</u> | <u>Number of<br/>Handicapped<br/>Passengers</u> | <u>Total Number<br/>of Senior and<br/>Handicapped<br/>Passengers</u> |
|-----------------|--|---|---|--|---|--|
| DEMAND-RESPONSE | 58,926                                 | 86,686                                    | 102,542                                     | 34,842                                     | 98,521  | 133,363  |

<sup>(1)</sup> The methodology used for compiling vehicle hours and passengers has been reviewed and found to be an adequate and reliable method for recording vehicle hours and passengers.

Isabella County Transportation Commission

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2005

| <u>Federal and State<br/>Grantor/Pass-Through<br/>Grantor/Program Title</u> | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Grantor's<br/>Number</u> | <u>Program<br/>Award<br/>Amount</u> | <u>Expenditures</u> |
|---|------------------------------------|--|-------------------------------------|---------------------|
| FEDERAL   |                                    |  |                                     |                     |
| <u>U.S. Department of Transportation</u>                                    |                                    |  |                                     |                     |
| Passed through MDOT   |                                    |  |                                     |                     |
| Capital grant - Section 5309  | 20.500                             | 2002-0053/Z3                                 | \$ 224,737                          | \$ 4,382            |
| Operating Assistance - Section 5311   |                                    |  |                                     |                     |
| FY 04-05  | 20.509                             | 2002-0053/Z13                                | 393,080                             | 393,080             |
| FY 03-04  | 20.509                             | 2002-0053/Z9                                 | 28,488                              | 28,488              |
| FY 02-03  | 20.509                             | 2002-0053/Z5                                 | 41,101                              | 41,101              |
| RTAP  | 20.509                             | N/A  | 671                                 | 671                 |
|   |                                    |  | <u>463,340</u>                      | <u>463,340</u>      |
| TOTAL EXPENDITURES OF FEDERAL AWARDS  |                                    |  | 688,077                             | 467,722             |
| STATE   |                                    |  |                                     |                     |
| <u>Michigan Department of Transportation</u>                                |                                    |  |                                     |                     |
| Operating Assistance - Act 51   |                                    |  |                                     |                     |
| FY 04-05  | N/A                                | N/A  | 1,232,708                           | 1,232,708           |
| Transportation to Work  | N/A                                | N/A  | 42,848                              | 42,848              |
| Capital grant - Section 5309  | N/A                                | 2002-0053/Z3                                 | 56,184                              | 1,096               |
| TOTAL EXPENDITURES OF STATE AWARDS  |                                    |  | <u>1,331,740</u>                    | <u>1,276,652</u>    |
| TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS                              |                                    |  | <u>\$ 2,019,817</u>                 | <u>\$ 1,744,374</u> |

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Isabella County Transportation Commission  
Mt. Pleasant, Michigan

We have audited the component unit financial statements of the Isabella County Transportation Commission as of and for the year ended September 30, 2005, and have issued our report thereon dated November 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Isabella County Transportation Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Isabella County Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and the Board of Directors of the Isabella County Transportation Commission, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 16, 2005

East Lansing ■ Rochester Hills ■ St. Johns

Principals

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MANAGEMENT LETTER

To the Board of Directors  
Isabella County Transportation Commission  
Mt. Pleasant, Michigan

Ladies/Gentlemen:

As you know, we have recently completed our audit of the Isabella County Transportation Commission records for the year ended September 30, 2005. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the systems. These suggestions are the result of our evaluation of the internal controls and our discussions with management. These suggestions were not considered material in relation to the basic financial statements of the Isabella County Transportation Commission but may be areas of possible improvement.

1. The Commission should develop and implement procedures to test the operational efficiency of the disaster recovery plan.

Based on our discussions with management, we noted that the Board of Directors has not formally adopted written procedures and policies to test the operational efficiency of the disaster recovery plan. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. Testing those policies and procedures will provide management greater oversight over those areas for which they are responsible.

We suggest that the Board develop, formally adopt, and implement written procedures and policies to periodically test the operational efficiency of the Commission's disaster recovery plan, such as testing computerized back-up files to ensure they can be effectively restored.

2. The Commission should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Commission may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that the receipt process may be completed by the Accountant, who is able to receive the money, prepare the bank deposit, make the bank deposit, and reconcile the bank account. The Accountant also has the ability to make adjustments to accounts receivable and accounts payable. Also, we noted that the completed bank reconciliation is not reviewed or approved at a supervisory level. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, management and the Board of Directors of the Commission should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the management and Board of the Commission review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Commission provide a greater review and supervision of employee functions and procedures. We also suggest that in the future when the Commission is adopting new or modifying existing financial policies they consider the issue of fraud, and assure that the policy discusses ways that will prevent, deter, and detect fraud within the area the policy is addressing.

3. The Commission should request additional information from the County related to property tax receipts.

During our analysis of property tax revenue for the Commission, we noted that the supporting documentation from the County that accompanies the property tax collections does not always provide the necessary details for the Commission to be able to appropriately reconcile the revenue to the general ledger.

We suggest that the Commission request additional information from the County, such as the taxable values for any IFT or CFT tax rolls, DDA or LDFA captures, any Board of Review adjustments that are made throughout the year, and the amount of uncollected personal property taxes at the end of the year. The Commission should calculate the amount of tax revenue that they should be receiving from the County and compare that to the amounts actually received.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated November 16, 2005.

This report is intended for the use of management and the Board of Directors of the Isabella County Transportation Commission and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of these improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 16, 2005